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FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

Audit of the Inter-American Foundation's Financial Statements for Fiscal Years 2008 and 2007

AUDIT REPORT NO. 0-IAF-09-003-C
November 14, 2008

WASHINGTON, DC



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

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MEMORANDUM

TO: IAF President, Amb. Larry L. Palmer
FROM: AIG/A, Joseph Farinella /s/
SUBJECT: Audit of the United States Inter-American Foundation's Financial Statements for Fiscal Years 2008 and 2007 (Audit Report No. 0-IAF-09-003-C)

With this memorandum, the Office of Inspector General is transmitting the audit report prepared by the certified public accounting firm of GKA, P.C. (Independent Auditor) on the Financial Statements of the United States Inter-American Foundation, (IAF) as of September 30, 2008 and 2007. We contracted with this Independent Auditor for auditing the financial statements.

The Independent Auditor expressed a clean opinion that IAF's financial statements, including notes thereto, presented fairly in all material respects its financial positions, the net cost of operations, the changes in net position, and use of budgetary resources for the years ended September 30, 2008, and 2007, in conformity with U.S. generally accepted accounting principles.

The report contained no material weaknesses in the internal control over financial reporting and no instances of material noncompliance with selected provisions of applicable laws and regulations involving IAF's financial management system. In addition, there were no instances in which IAF's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) Section 803(a).

We reviewed the audit report and found it to be in accordance with auditing standards generally accepted in the United States; Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States; and the Office of Management and Budget Bulletin (OMB) 07-04, *Audit Requirements for Federal Financial Statements*.

In connection with our contract, we reviewed the Independent Auditor's related audit documentation. Our review, as differentiated from an audit in accordance with the auditing standards discussed above, was not intended to enable us to express, and we do not express, an opinion on IAF's financial statements. We also did not express conclusions on the effectiveness of IAF's internal control, IAF's substantial compliance with FFMIA Section 803(a), or IAF's compliance with other laws and regulations. The Independent Auditor was responsible for the attached auditor's report dated November 7, 2008 and the conclusions expressed in it. However, our review disclosed no instances where the Independent Auditor did not comply, in all material respects, with the auditing standards discussed above.

The Office of Inspector General appreciates the cooperation and courtesies extended to our staff and to the staff of GKA, P.C. during the audit. If you have questions concerning this report, please contact Rohit Chowbay at (202) 712-1317.



INTER-AMERICAN FOUNDATION

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT THEREON

For the Fiscal Years Ended September 30, 2008 and 2007

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Inter-American Foundation

An Independent Agency of the U.S. Government

Message from the President

The Inter-American Foundation (IAF), an independent foreign assistance agency of the United States government, provides grants to grassroots organizations in Latin America and the Caribbean. Created in 1969 as an experimental program, the IAF responds to innovative, participatory and sustainable self-help development projects proposed by grassroots groups and organizations that support them. It also encourages partnerships among community organizations, businesses and local governments directed at improving the quality of life for poor people and strengthening democratic practices. To contribute to a better understanding of the development process, the IAF shares its experiences and the lessons it has learned.

The IAF is governed by a nine-person board of directors appointed by the President of the United States and confirmed by the U.S. Senate. Six members are drawn from the private sector and three from the public sector. The board is assisted by an advisory council. A president, appointed by the board, serves as the Inter-American Foundation's chief executive officer, managing a staff of 47 employees based in Arlington, Virginia. The IAF is organized into three offices; Executive, which houses the Office of the President, General Counsel and External Affairs; Operations, which manages Evaluation, Financial Management, Publications, Human Resources and Information Management; and the Program Office, which manages the grant program.

The IAF plays a crucial role in U.S. foreign policy by delivering U.S. government assistance directly to the poor of Latin America and the Caribbean and the groups that support them. Year after year, the IAF's investment in the ideas and energy of ordinary people has yielded extraordinary returns in the form of economic improvement for families and better living conditions in communities throughout the hemisphere. Many of the grassroots leaders supported by the IAF have gone on to play influential roles in democratic processes and have helped strengthen good governance principles. No longer considered experimental, the IAF's responsive approach is increasingly the model for overhauling top-down funding structures.

In FY 2008, as a result of IAF support, thousands of people in Latin America and the Caribbean:

- benefited from the creation of new jobs;
- were extended credit for income-generating small and micro- businesses;
- received the skills and training necessary to increase their family incomes;
- benefited from access to clean water, medical attention and enriched nutrition.

Many of the IAF's FY 2008 grants were awarded to organizations serving historically marginalized and excluded groups including women, African descendants and indigenous communities as well as

persons with disabilities, bringing these groups into the development process and, eventually, into their countries' economic and political life.

The IAF is working to maximize the investments made by other U. S. government agencies in the region. IAF support to community groups initially can help strengthen partner organizations to work with other U.S. government agencies later on, such as a cacao farmers' cooperative working with USAID's alternative development program in Bolivia. IAF funding is also helping small-scale producers position themselves to take full advantage of the Millennium Challenge Corporation's initiative in Nicaragua.

In a time of economic upheaval and increased demands on each tax dollar, the IAF is working to leverage resources within Latin America itself. Through the IAF-initiated corporate network, RedEAmérica, Latin American corporations and their corporate foundations are matching IAF investments in grassroots development projects by at least two-to-one to lift individuals and communities out of poverty and create civil society infrastructures that can insist on democratic principles and hold governments accountable. Moreover, the entire network raises contributions from a variety of sources. RedEAmérica, for example, recently negotiated with the Inter-American Development Bank a \$4.7 million agreement to finance self-help projects.

The IAF's successes are the results of (1) small amounts of U.S. taxpayer dollars carefully invested; and (2) efficient and effective aid provided directly to the grassroots. In order to foster community ownership and long-term sustainability, the IAF requires all grantees to contribute to their project in cash or in kind, encourages them to partner with local governments and urges them to mobilize funds to sustain their impact after the grant period. The IAF is nurturing community foundations as development donors and reaches out to U.S.-based immigrants interested in supporting self-help initiatives in their home communities.

The IAF's Strategic Plan for FY 2008 through FY 2013 flows from the lessons of its experience. The Strategic Plan reflects the IAF's vision for a steady increase in international support for grassroots development. The IAF's FY 2009 goals are identical to the longer-term goals in the Strategic Plan and incorporate goals and performance measures developed with the Program Assessment Rating Tool, which helped sharpen the IAF's focus on its development mission.

The IAF streamlines operations and lowers costs by outsourcing its procurement, accounting, budget and information technology functions to the Bureau of the Public Debt (BPD). Under an inter-agency agreement, BPD's Office of Information Technology in Parkersburg, West Virginia, maintains a remote data center for IAF contingencies and continuity of operations. In May 2008, the IAF again completed annual contingency testing of remote access to alternate file, e-mail and grant database servers at BPD's data center through the use of a Virtual Private Network (VPN) configured on laptops assigned to essential employees, using card readers with PKI cards to meet dual factor authentication requirements.

IAF met benchmarks established in the agency transition plan to Internet Protocol Version 6 (IPv6), as required by the Office of Management and Budget. The key transition objective is to allow IPv6 and IPv4 hosts to interoperate. IAF established a dedicated T1 internet circuit line between IAF and

BPD. In lieu of replacing the IAF firewall, BPD is now IAF's managed Internet Service Provider and provides managed firewall and security services for LAN and WAN, Web server hosting and management, Internet and Internet Proxy access and IPv4 and IPv6 address assignment. All BPD core network hardware fully supports IPv6. BPD tested an IPv4/IPv6 dual stack network to support native IPv6 and 6to4 Internet traffic in a lab environment. IAF's IPv6 will be supported through BPD's upstream Internet providers as well as through BPD's entire core network infrastructure. This support of IPv6 will include IAF's wide area network.

As no public address is required to the IAF internal servers and resources, IPv4 will remain in place as the preferred protocol of communication. All workstations are expected to remain IPv4 only. Access to IPv6 Internet resources can be accomplished using BPD's Internet Proxy servers and their 6to4 gateways.

In response to the Homeland Security Presidential Directive (HSPD-12) to establish a common identification standard for federal employees, the IAF signed an inter-agency agreement with the General Services Administration (GSA) as its HSPD-12 services provider.

As mandated by the Federal Information Security Management Act (FISMA), the IAF completed the security re-certification and accreditation of the agency's enterprise network system and Grant Evaluation and Management System (GEMS) in August 2007, in accordance with the Office of Management and Budget Circular A-130, Appendix III; NIST Special Publication 800-37, Guide for the Security Certification and Accreditation of Federal Information Systems, and IAF policy on system accreditation. This accreditation will remain in effect for three years unless a major change is made to the security controls, thereby requiring another review. Auditors from the USAID Office of the Inspector General (OIG) completed the IAF's annual independent assessment of the security infrastructure supporting our enterprise network system and agency compliance with the Federal Information Security Management Act (FISMA). A final positive audit report issued in September 2008 determined that the IAF is in full compliance with FISMA requirements.

The IAF is among the agencies supporting E-Gov. BPD has implemented the integration with the Central Contractor Registration, the system used by suppliers as the sole repository for pertinent data, including remittance information. Integration allows BPD and the IAF to maintain more efficiently current data related to suppliers. The IAF is supporting the Financial Management Line of Business (FMLOB) Initiative by using BPD's Oracle Federal Financials System and related accounting and procurement services and BPD has been reporting FMLOB metrics for IAF for the past year. The Oracle platform provides real-time, user-friendly financial reports. Since FY 2005, the IAF has been using GovTrip, the government-wide E-Gov Travel system integrating online booking with the automated authorization and vouchering process allowing travelers to attach receipts electronically. The IAF continues to receive unqualified audits of its financial statements, internal controls over financial reporting, and its compliance with laws and regulations.

I am pleased to introduce the IAF's FY 2008 financial statements, which reflect the IAF's quest to become increasingly innovative while adhering to its core principles.

The financial statements and performance results data are complete, reliable and in accordance with the Office of Management and Budget (OMB) requirements and in conformity with generally accepted accounting principles. The IAF has appropriate management controls in place to ensure that all internal controls are operating in accordance with applicable policies and procedures and are effective in meeting the requirements imposed by Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA).

Signed:

/s/

Amb. Larry L. Palmer
President

MANAGEMENT DISCUSSION AND ANALYSIS

The Inter-American Foundation (IAF) is a resourceful, agile, cost-effective agency efficient in its operations, innovative and effective in its grassroots development programs. The IAF learns from its experience, and uses the lessons learned to improve its own grant making decisions and to advance the knowledge and success of development practitioners, donors, and policy makers.

Mission and Organizational Requirements

The Inter-American Foundation funds self-help and participatory development efforts in ways that support democracy and strengthen the bonds of friendship and understanding in the Western Hemisphere. The IAF supports initiatives proposed by the organized poor in Latin America and the Caribbean to improve their quality of life. IAF staff, representing the American government and people, maintain a supportive relationship with the grantees and their beneficiaries during the course of projects and, frequently, beyond. The IAF's experiences are documented and shared with a broad and diverse audience.

The IAF vision for the next five years is a steady expansion of support for grassroots development and greater participation by the people of Latin America and the Caribbean in their countries' economic development, social processes and political life. The IAF will continue to respond to the best ideas from the region, empowering people by strengthening a vast infrastructure of community groups and nongovernmental organizations that has become a highly effective and transparent channel for productive foreign assistance. Because a broader resource base is crucial to an expanded IAF program, the IAF will seek additional resources from various sources. The IAF will build on its well-documented record of drawing local government, businesses, corporate foundations and transnational communities into grassroots development. Through disseminating the lessons of its investment to other donors, to policymakers and to American taxpayers, the IAF can continue to lead the development community toward a realization that bottom-up development, in which the organized poor play a leading role, is more effective than traditional top-down approaches.

The Fiscal 2008 Accomplishments

In FY 2008 the Inter-American Foundation received an appropriation of \$20.829 million for program and program support activities, which was supplemented by \$5.084 million from the Social Progress Trust Fund for development grants and by \$1.696 million in carry-over funds. The total budget was \$27.609 million. The IAF responded to the best development proposals it received with 76 new grants to grassroots and nongovernmental organizations. This represented \$15.23 million; 25 supplements to grantees from prior years represented \$1.84 million. Total funding of \$17.07 million represents 100 percent of all development grant funds for FY-08. The IAF's current development portfolio consists of 251 active grants representing an investment of \$62,344,740.

The FY 2008 funding actions are divided among primary program areas as follows:

FY08 GRANTS FUNDED BY PRIMARY PROGRAM AREA		
Program Area	IAF \$	Funding Actions
Agriculture/food production	\$ 6,453,417	30
Enterprise development	\$ 4,704,280	32
Education/training	\$ 2,149,278	16
Corporate Social Investment	\$ 1,055,745	3
Cultural expression	\$ 942,606	7
Environment	\$ 881,063	5
Health/Housing	\$ 664,120	4
Legal assistance	\$ 147,856	2
Research/dissemination	\$ 69,685	2
Total	\$ 17,068,050	101

Accomplishment of the Goals and Objectives of the FY 2008 Program

The Inter-American Foundation achieved its goals as follows:

Goal One: Fund effective development projects that improve the quality of life as evidenced by measurable indicators

Performance Measure 1.1 (output): Grants funded in the fiscal year that target a better quality of life for beneficiaries as evidenced by measurable indicators.

The IAF awarded 76 grants to grassroots and nongovernmental organizations in 18 countries and amended the awards of 25 grantees from prior years.

Performance Measure (outcome) 1.2: Percentage of grantees whose funding ends in FY 2008 that met or exceeded outcome goals specified for each project.

Funding for 52 grantees ended during this fiscal year. Of grantees reporting by July, 69 percent met or exceeded their goals.

Goal Two: Stimulate and encourage broader participation in the development process and broader engagement in democratic practices.

Performance Measure (output) 2.1: Grants awarded to groups and organizations of the marginalized and disenfranchised, including African descendants, indigenous peoples, persons with disabilities, women and young people.

The IAF's FY 2008 program includes 49 new grantees working toward better conditions for the marginalized and disenfranchised as defined in this measure. Prior grants to 10 organizations with this mission were supplemented with additional funding. Organizations serving **African descendants** received 10 new grants and four supplemental grants. These include six awards to Haitian organizations, funding made possible during this fiscal year because of fewer restrictions on travel to this country. The prevalence of extreme poverty makes Haiti a priority for future funding as well. New grants to 26 organizations and supplemental grants to three continue the IAF's long history of supporting the self-help efforts of **indigenous peoples**. Some of this funding will reach indigenous peoples new to the IAF: Grupo Sunu will work with native Ava Guaraní, Angaité Maskoy and Chamacoco Paraguayans in the departments of Canindeyú, Presidente Hayes and Alto Paraguay; Consejo Coordinador Nacional Indígena expects to benefit 3,000 indigenous Nahuat, Lenca and Cacawira Salvadorans. Three new grantees work in Mexico's heavily indigenous and extremely poor Chaipas state.

Four new grants and one supplemental grant were awarded to organizations in Ecuador, El Salvador, Guatemala, Peru and Paraguay that will help **individuals with disabilities** live independently, develop their earning potential and raise awareness of their challenges and aptitudes. Beneficiaries of the two Salvadoran grantees include farmers who became disabled as a result of the civil war. Twelve new grants and two supplemental grants were awarded to organizations serving **young people** through job training, employment opportunities, support for their enterprises, improved early education and protective services. New and supplemental funding to 24 organizations will enable them to conduct programs supporting the efforts of **women**, especially women heads-of-households, to become successful entrepreneurs, farmers, artisans and health-care providers and to develop the skills and abilities necessary to assume positions of leadership in their organizations and communities. Women beneficiaries include many who are indigenous, disabled, young and of African descent.

Performance Measure (outcome) 2.2: Percentage of these grantees whose funding ends in FY 2008 that met or exceeded outcome goals specified for each project.

As reported in Performance Measure 1.2, of the 52 grantees that completed their grant period during the first half of the fiscal year and reported by July, 69 percent had met or exceeded their goals. Figures have not yet been disaggregated to reflect the success rate of the grantees serving specific marginalized communities.

Performance Measure (output) 2.3: Events supported or organized to stimulate broader participation in the development process or engagement in democratic practices.

The IAF sponsored the attendance of 475 individuals, including representatives of some 100 organizations, at workshops, conferences and training related to participation in the development process or engagement in democratic practices.

Among these were events focused on **African descendants**. Global Rights Partners for Justice and the IAF supported workshops and conferences targeting the participation of African descendants in the Summit of the Americas process of the Organization of American States, a dialogue with the OAS Secretary General and a discussion of official efforts to combat discrimination. Seventeen African descendants from 11 countries attended the IAF- and U.N.-sponsored III Consulta Latinoamericana y Caribeña de Organismos de Equidad Racial hosted in Quito by the Ecuadorian government. Afro-Ecuadorians and New York Afro-Latinos participated in an exchange organized by Afrolatin@ Forum of New York University and in other IAF-sponsored events. IAF grantee CIFANE hosted the New Yorkers in the African descendent communities of Chota and Esmeraldas, Ecuador. Representatives of Afro-Ecuadorian grantee AZUCAR spoke at National Council of La Raza's annual conference held in July in San Diego. (The group performed its folk dances outside the conference and received a donation of computer equipment from a community organization.) The IAF- sponsored series "Women of Power" featured lectures by African descendants at Hunter College, Simmons Institute for Leadership and Change, DePaul University and Tulane University. As a result of the attendance of two African-descendent travel grantees at an event sponsored by the IAF and Red de Mujeres Afro-Latinas, their organizations received grants to support income-generating activities from When and Where I Enter, a U.S. foundation.

To further the inclusion of **persons with disabilities**, the IAF supported blind participants at the VI General Assembly Unión Latinoamericana de Ciegos (ULAC) in Brazil; 12 women at the first Regional Conference of Women with Disabilities held in the Dominican Republic; six representatives at the general assembly of Disabled Peoples International; and various individuals at the general assembly of the Red Latinoamericana de Organizaciones de Personas con Discapacidad y sus Familias (RIADIS) in Salvador, Bahia, where they worked toward ratification of the U.N. Convention on the Rights of Persons with Disabilities.

IAF grantee exchanges included micro credit training offered by Boulder Institute for Microfinance in Santiago for staff from Asociación para el Desarrollo de la Costa Atlántica "Pana Pana," the leading Nicaraguan **indigenous** organization, which is managing a loan fund for the reconstruction of housing damaged by Hurricane Felix. Representatives of Argentina's El Ceibal Asociación Civil visited Bolivia's Fundación para la Investigación Antropológica y el Etnodesarrollo to learn from its successful recovery of traditional indigenous weaving techniques and designs as well as marketing and community museum management. The week-long Valentine's Day celebration of National Museum of the American Indian showcased former grantee El Ceibo, a federation serving indigenous cacao farmers, and its stunning development into Bolivia's premier exporter of cacao and chocolate products.

Young Argentine photographers from Fundación ph15 para las Artes, whose program uses photo arts to integrate **young people** from Buenos Aires' shantytowns into community life, visited Fundación Ser Paz and Movimiento Mi Cometa, grantees working with impoverished youths in Guayaquil.

Finally, the Canadian International Development Agency and the IAF co-sponsored a conference hosted by Canadian Foundation for the Americas to review health and education policy as related to **African descendants, indigenous peoples and persons with disabilities** in the Americas.

Performance Measure (outcome) 2.4: Percentage of participants in these events who say they will apply the knowledge gained to their work with development or civic engagement.

Of 227 respondents who evaluated workshops and seminars that they had attended, 93 percent reported they would apply the knowledge gained to their development work.

Goal Three: Draw more resources into grassroots development.

Performance Measure (outcome) 3.1: Total verified dollar amount of in-kind and cash resources contributed or mobilized by grantees to further their efforts.

By July 31, the IAF had received verified reports for the first six months of the fiscal year from 25 percent of the grantees required to submit them. According to their verified reports, these grantees contributed or mobilized \$1.1 million, in cash and in kind, over and above the counterpart funds committed in their grant agreements.

Additionally, the Latin American International Guarantee Fund (LAIGF), a partnership formed in 2004 between the IAF and the International Guarantee Fund (IGF) to serve microfinance institutions in Central America, increased its initial capital of \$400,000 to \$600,000 in 2006 and to \$1 million in 2007. A low-interest loan of \$2.1 million from the Spanish government and the transfer of \$1 million in guarantees (of loans extended in El Salvador, Chile, Peru and Ecuador) from the IGF's portfolio will bring to \$4.1 million the guarantees to be managed by LAIGF in 2008.

Performance Measure (output) 3.2: Number of companies and corporate foundations who commit to supporting grassroots development by becoming members of RedEAmérica.

RedEAmérica has 57 dues-paying members in 12 countries, including Fundación Haciendas del Mundo Maya and Fundación Carlos F. Novella of Guatemala and Fundación Loma Negra of Argentina, which joined in 2008.

Performance Measure (outcome) 3.3: The dollar amount of resources invested in grassroots development through RedEAmérica.

Under the terms of three new Cooperative Agreements and one amended Cooperative Agreement, Asociación Atocongo of Peru, Fundación Pantaleón of Guatemala, EDESA of Costa Rica, and Fundación Lann-Nobis of Ecuador have committed to mobilizing resources totaling \$3.3 million to invest in grassroots projects. Lann-Nobis' commitment includes \$300,000 in resources from Ecuador's Ministry of Tourism.

Additionally, the Multilateral Investment Fund of the Inter-American Development Bank approved a \$4.7 million grant to RedEAmérica as part of an \$8 million project, with RedEAmérica members providing the remaining \$3.3 million. The Spanish foreign assistance agency (through the CODESPA foundation of Spain) has committed \$1 million toward the development of country-wide funds for grassroots development in Peru, Guatemala and, pending approval, Colombia.

Performance Measure (output) 3.4: Activities to encourage the investment of resources in transnational and local development partnerships.

The term **transnational development** refers to efforts in a given community that are supported by immigrants from that community who are residing abroad. In this connection, an IAF travel grant enabled 10 Salvadoran women from U.S.-based hometown associations and other immigrant organizations to discuss the role of migrant support for development projects in the immigrants' communities of origin at the Fifth International Convention of Salvadorans in the World held in November in Los Angeles. IAF staff met with representatives of the Haitian community in Miami to share information about the IAF's program and to identify opportunities to increase diaspora support for grassroots development in Haiti. In April, IAF staff participated in the annual meeting of the U.S.-Mexico Border Philanthropy Partnership (BPP), held in Phoenix. BPP members work to mobilize funds and engage new partners in improving the quality of life in the border region.

The term **local development** refers to grassroots efforts that involve the support of the local government. IAF activities to further local development include the fourteenth annual Inter-American Conference of Mayors and Municipal Officials. Held in June and co-sponsored by the IAF, Florida International University and Miami-Dade County, the event drew 600 participants in its three days of workshops on public-private partnerships at the local level.

Additionally, the IAF organized several meetings in Honduras during the fiscal year to explore the feasibility of "Opportunity Zones," a concept adopted by the Summit of the Americas, promoted by the IAF and modeled on the U.S. Department of Housing and Urban Development's renewal communities involving public- and private-sector support. The IAF expects to receive by early next fiscal year proposals to co-fund housing-related projects in Honduras. As a result of the IAF's outreach, the government of Guatemala proposed the Organization of American States actively encourage Opportunity Zones as a development option. The Guatemalan government has submitted to the U.S. Department of Housing and Urban Development its proposal for technical assistance with an Opportunity Zone projected for the area surrounding Lake Atitlan. At the suggestion of the U.S. Embassy in Brasilia, the Brazilian Ministry of Planning approached HUD and the IAF about a possible collaboration in its Amazon Basin development initiative. With support from RedEAmérica member Asociación Los Andes de Cajamarca (ALAC), the regional government of Cajamarca, Peru, has organized a delegation to visit to the Renewal Community of Chattanooga and explore the possibility of an Opportunity Zone in Cajamarca.

Goal Four: Document the IAF's investments and results.

Performance Measure (output) 4.1: In-depth evaluations or analyses documenting the impact of closed projects.

The IAF evaluated 11 projects funded in Brazil since 1972. The findings will be shared with the Program Office for possible future application.

Goal Five: Disseminate the IAF's experiences and approach.

Performance Measure (output) 5.1: Publications produced that disseminate the IAF's experiences and approach.

IAF printed its 2007 annual report and *Grassroots Development 2008* in English and Spanish and distributed them to subscribers and other interested readers. These publications were also posted to the IAF Web site in English, Spanish and Portuguese. This year's journal included longer articles by fewer authors covering past and current grantees that, with modest IAF support, impressive energy and relentless dedication have transformed agriculture, launched cooperative enterprises and engaged with government to put in place the infrastructure necessary to economic development. "Business Social Engagement in Latin America: The New Alliance for Progress," a special section by Lester Salamon of Johns Hopkins University, reported his findings on the role of the corporate sector in supporting grassroots development. His full report will be posted on the IAF's new Web site expected to go live during the first quarter of fiscal 2009. The U.S. Government Printing Office is working on the redesign of the site featuring text that reflects the 2008-2013 Strategic Plan and the goals articulated in PART. IAF's brochure has been similarly reconfigured.

An unanticipated demand for *Grassroots Development 2007*, focusing on the efforts of African descendants, prompted a second printing of the Spanish version. The additional copies quickly "sold out" during fiscal 2008. David Bray's feature in that issue, "A Path through the Woods: 15 Years of Community Management in Mexico," was reprinted in *México Forestal*, the digital magazine of the National Forestry Commission of Mexico.

Performance Measure (output) 5.2: Conferences, workshops, grantee exchanges and other learning activities using the IAF's grassroots development experiences.

An extensive list of selected activities is included under Performance Measures 2.3 and 3.4.

A highlight among IAF's learning activities was the reinstatement of IAF's Grassroots Development Fellowships funding Ph.D. dissertation research by students who have advanced to candidacy at U.S. universities. After several years of preparation, the Fellowship Program became a reality in fiscal 2008 by which time all of the 11 Fellows had

reported to research sites in Latin America to undertake their projects for periods lasting up to 12 months. In February, staff from the IAF and from the Institute for International Education, IAF's contractor that administers the Fellowships, as well as members of IAF's Academia Review Committee, joined the Fellows in Cartagena, Colombia, for a productive mid-year examination of the Fellows' work and its consequences for grassroots development. In April, a second cycle of 12 Fellows was selected for the 2008-2009 academic year.

In December, the IAF co-sponsored the Corporate Social Responsibility Conference in Guatemala, where IAF staff and representatives of members of the Inter-American Network of Corporate Foundations and Actions for Grassroots Development (RedEAmérica), an IAF-initiated alliance, spoke on the importance of private-sector investment in grassroots development. In May, IAF staff and representatives of RedEAmérica members also spoke at the Council of Foundations Philanthropy Summit in Washington, D.C.

Performance Measure (outcome) 5.3: Percentage of participants surveyed who will apply knowledge gained in IAF-sponsored learning activities to their development work.

Out of 227 respondents who completed evaluations at four workshops and seminars, 93 percent agreed or strongly agreed that they would apply the knowledge gained to their development work.

Goal Six: Build upon and enhance current efficiency measures.

Performance Measure (efficiency) 6.1: Percentage of IAF's total obligation spent on overhead: personnel, staff travel, office rent, phone services, information technology services, supplies, equipment and other general operating expenses.

IAF estimates it will spend on overhead 28.7 percent of its fiscal 2008 operating budget.

Performance Measure (efficiency) 6.2: Time spent in review and approval of grants proposals between receipt of proposals and the award of grants.

The time spent on the review and approval of grant proposals has remained constant at 11 months for the past three fiscal years. The process took 15 months in FY 2005.

Identification of Key Factors that Could Affect Achievement of General Goals and Objectives

The IAF works in poor, often remote, areas lacking infrastructure, vulnerable to health problems, weather and natural disasters, fragile agriculturally, and unstable politically. International phenomena such as markets, wars, and foreign investment also may affect planned activities. Yet only rarely do IAF-funded projects fail as a result of such factors.

Federal Managers' Financial Integrity Act and the Federal Financial Management Improvement Act

In accordance with applicable guidelines, the IAF submitted its Fiscal Year 2008 Assurances Statement relating to requirements imposed by Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA) to the USAID Office of the Inspector General.

The IAF, in conjunction with BPD, analyzed and evaluated its systems of management control and financial management under the FMFIA for the year ended September 30, 2008, according to the procedures and standards prescribed by the Office of Management and Budget and the Government Accountability Office. Based on this evaluation we found that our systems of management controls provide reasonable assurance that: programs are free from waste, fraud and mismanagement; laws and regulations are followed; our continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and our performance information is reliable as defined in OMB Circular A-11, Section 232.10. We further found that the IAF's financial management systems, in conjunction with those of BPD, meet the Federal government's management system objectives of usefulness, timeliness, reliability and completeness, comparability and consistency, and efficiency and economy. As a result, we conclude that there is reasonable assurance that the Inter-American Foundation complies with Sections 2 and 4 of the FMFIA.

We have no open or new material weakness or nonconformance to report; we have not discovered any material weakness or nonconformance during fiscal year 2008; and we do not have any significant deficiencies or second tier issues.

In addition, we have found that, for the year ended September 30, 2008, the Inter-American Foundation's administrative and fiscal accounting systems substantially comply with the requirements of the FFMIA.

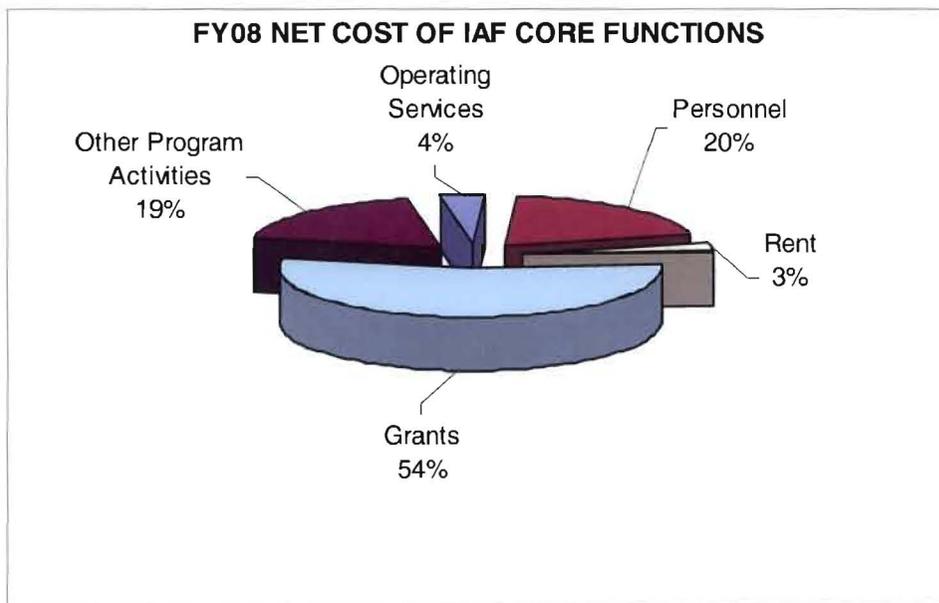
Analysis of Financial Statements and Stewardship Information

Systems, Controls, and Legal Compliance

Net Cost of Core Functions

The activity reported in the Statement of Net Cost reflects the resources used by the IAF during the year. Program costs of \$24,977,263 reflected a decrease of \$2,243,275 in resources used from the FY 2007 amount of \$27,220,538.

Personnel compensation and benefits increased from \$4,972,012 in fiscal 2007 to \$5,167,218 in fiscal 2008 reflecting an increase of \$195,206. In fiscal 2008, program-related Contractual Services used \$4,645,795 of IAF resources. The difference of \$245,512 from fiscal 2007, which reported \$4,400,283 in resources used, reflects an increase of approximately 6 percent.



Fund Balance with U.S. Treasury

Total resources available from the U.S. Treasury and other financing sources for fiscal 2008 and 2007 were \$37,596,910 and \$34,614,690, respectively. The difference of \$2,982,220 is due to a net increase in the Social Progress Trust Fund (SPTF) collections in FY 2008. The SPTF agreement was amended during fiscal 2002 to provide all remaining funds to the IAF until they are exhausted, in approximately 9 years. See Note 1 in the Financial Statements for funding source and Note 15 for the end-of-year net position.

Limitations on Financial Statements

These financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3513. While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

Independent Auditors' Report on Financial Statements

Office of the Inspector General
U.S. Agency for International Development
Washington, D.C.

We have audited the financial statements (balance sheets and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements") of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of September 30, 2008 and 2007. These financial statements are the responsibility of the management of the IAF. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the IAF as of September 30, 2008 and 2007, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph of this report as a whole. The information presented in IAF Management's Discussion and Analysis

(Overview) section is not a required part of the financial statements but is supplementary information required by OMB Circular No. A-136, *Financial Reporting Requirements*.

Although we have read the information presented, such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued reports dated November 1, 2008 on our consideration of the IAF's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and, in considering the results of the audit, these reports should be read in conjunction with this report.

/s/

GKA, PC

November 1, 2008

INTER-AMERICAN FOUNDATION
BALANCE SHEETS
As of September 30, 2008 and 2007
(In Dollars)

	<u>2008</u>	<u>2007</u>
Assets:		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 37,596,910	\$ 34,614,690
Prepayments (Note 3)	<u>14,159</u>	<u>33,125</u>
Total Intragovernmental	37,611,069	34,647,815
Accounts Receivable (Note 4)	178	895
General Property, Plant and Equipment, Net (Note 5)	-	183
Prepayments (Note 3)	<u>-</u>	<u>111,449</u>
Total Assets	<u>\$ 37,611,247</u>	<u>\$ 34,760,342</u>
Liabilities:		
Intragovernmental:		
Accounts Payable (Note 6)	\$ 224,340	\$ 165,594
Other (Note 6)	<u>42,461</u>	<u>35,037</u>
Total Intragovernmental	266,801	200,631
Accounts Payable (Note 6)	743,948	795,516
Other (Note 6)	<u>479,302</u>	<u>619,080</u>
Total Liabilities	<u>1,490,051</u>	<u>1,615,227</u>
Net Position:		
Unexpended Appropriations - Other Funds	19,507,588	17,128,211
Cumulative Results of Operations - Earmarked Funds (Note 15)	16,937,111	16,328,662
Cumulative Results of Operations - Other Funds	<u>(323,503)</u>	<u>(311,758)</u>
Total Net Position	<u>36,121,196</u>	<u>33,145,115</u>
Total Liabilities and Net Position	<u>\$ 37,611,247</u>	<u>\$ 34,760,342</u>

The accompanying notes are an integral part of these statements.

INTER-AMERICAN FOUNDATION
STATEMENTS OF NET COST
For The Years Ended September 30, 2008 and 2007
(In Dollars)

	<u>2008</u>	<u>2007</u>
Program Costs:		
Foreign Grant Program:		
Gross Costs (Note 9)	\$ 24,977,263	\$ 27,220,538
Net Program Costs	<u>24,977,263</u>	<u>27,220,538</u>
Net Cost of Operations	<u>\$ 24,977,263</u>	<u>\$ 27,220,538</u>

The accompanying notes are an integral part of these statements.

INTER-AMERICAN FOUNDATION
STATEMENTS OF CHANGES IN NET POSITION
For The Years Ended September 30, 2008 and 2007
(In Dollars)

	<u>2008</u>			<u>2007</u>		
	<u>Earmarked Funds</u>	<u>All Other Funds</u>	<u>Consolidated Total</u>	<u>Earmarked Funds</u>	<u>All Other Funds</u>	<u>Consolidated Total</u>
Cumulative Results of Operations:						
Beginning Balances, as Adjusted	\$ 16,328,662	\$ (311,758)	\$ 16,016,904	\$ 19,767,528	\$ (306,303)	\$ 19,461,225
Budgetary Financing Sources:						
Appropriations Used	-	18,450,523	18,450,523	-	19,888,171	19,888,171
Donations and Forfeitures of Cash and Cash Equivalents	2,250	-	2,250	50	-	50
Other	-	6,803,003	6,803,003	-	3,564,919	3,564,919
Other Financing Sources (Non-Exchange):						
Imputed Financing Sources	-	318,191	318,191	-	323,077	323,077
Total Financing Sources	2,250	25,571,717	25,573,967	50	23,776,167	23,776,217
Net Cost of Operations	(606,199)	25,583,462	24,977,263	3,438,916	23,781,622	27,220,538
Net Change	608,449	(11,745)	596,704	(3,438,866)	(5,455)	(3,444,321)
Cumulative Results of Operations	16,937,111	(323,503)	16,613,608	16,328,662	(311,758)	16,016,904
Unexpended Appropriations:						
Beginning Balances, as Adjusted	-	17,128,211	17,128,211	-	17,898,210	17,898,210
Budgetary Financing Sources:						
Appropriations Received	-	21,000,000	21,000,000	-	19,346,743	19,346,743
Other Adjustments	-	(170,100)	(170,100)	-	(228,571)	(228,571)
Appropriations Used	-	(18,450,523)	(18,450,523)	-	(19,888,171)	(19,888,171)
Total Budgetary Financing Sources	-	2,379,377	2,379,377	-	(769,999)	(769,999)
Total Unexpended Appropriations	-	19,507,588	19,507,588	-	17,128,211	17,128,211
Net Position	\$ 16,937,111	\$ 19,184,085	\$ 36,121,196	\$ 16,328,662	\$ 16,816,453	\$ 33,145,115

The accompanying notes are an integral part of these statements.

INTER-AMERICAN FOUNDATION
STATEMENTS OF BUDGETARY RESOURCES
For The Years Ended September 30, 2008 and 2007
(In Dollars)

	<u>2008</u>	<u>2007</u>
Budgetary Resources:		
Unobligated Balance:		
Unobligated Balance Brought Forward, October 1	\$ 7,588,848	\$ 10,304,164
Recoveries of Prior Year Unpaid Obligations	1,998,327	1,009,835
Budget Authority		
Appropriation	21,000,000	19,346,743
Collected	<u>6,805,253</u>	<u>3,564,967</u>
Subtotal	27,805,253	22,911,710
Permanently Not Available	<u>170,100</u>	<u>228,571</u>
Total Budgetary Resources	<u>\$ 37,222,328</u>	<u>\$ 33,997,138</u>
Status of Budgetary Resources:		
Obligations Incurred		
Direct	29,150,961	26,408,290
Unobligated Balance		
Apportioned	131,805	1,882,079
Unobligated Balance Not Available	<u>7,939,562</u>	<u>5,706,769</u>
Total Status of Budgetary Resources	<u>\$ 37,222,328</u>	<u>\$ 33,997,138</u>
Change in Obligated Balance:		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	27,025,842	24,833,668
Obligations Incurred Net	29,150,961	26,408,290
Less: Gross Outlays	24,652,933	23,206,281
Less: Recoveries of Prior Year Unpaid Obligations, Actual	<u>1,998,327</u>	<u>1,009,835</u>
Obligated Balance, Net, End of Period		
Total, Unpaid Obligated Balance, Net, End of Period	<u>\$ 29,525,543</u>	<u>\$ 27,025,842</u>
Net Outlays:		
Net Outlays:		
Gross Outlays	\$ 24,652,933	\$ 23,206,281
Less: Offsetting Collections	<u>6,805,253</u>	<u>3,564,967</u>
Net Outlays	<u>\$ 17,847,680</u>	<u>\$ 19,641,314</u>

The accompanying notes are an integral part of these statements.

**INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2008 and 2007**

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and the status and availability of budgetary resources of the Inter-American Foundation (IAF). The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994 and the Accountability of Tax Dollars Act of 2002. They have been prepared from, and are fully supported by, the books and records of the IAF in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, and IAF accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control the IAF's use of budgetary resources.

The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and the Statement of Budgetary Resources. In accordance with OMB Circular A-136, the financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

B. Reporting Entity

The IAF, a U.S. government corporation, was established pursuant to part IV of the Foreign Assistance Act of 1969 (22 U.S.C. 290f (a)). The IAF provides grants to support the initiatives of non-governmental and community-based organizations in Latin America and the Caribbean to implement their economic development and poverty reduction projects.

The management of the IAF is vested in a nine-person Board of Directors appointed by the President of the United States. Six Board members are drawn from the private sector and three from officers or employees of agencies of the U.S. Government concerned with Inter-American activities. The Board appoints the IAF's president who acts as the chief executive officer.

C. Budgets and Budgetary Accounting

Congress enacts appropriations to permit the IAF to incur obligations for authorized purposes. In fiscal years 2008 and 2007, the IAF was accountable for the Social Progress Trust Fund (SPTF), Gift Fund, and General Fund appropriations. The IAF recognizes budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through the Department of Treasury General Fund warrants and transfers from the Inter-American Development Bank (IDB).

**INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2008 and 2007**

Note 1. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or disbursement of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

E. Revenue and Other Financing Sources

The IAF's grant program is funded by appropriation from the budget of the United States, agreement with the Inter-American Development Bank covering the SPTF, and donations from the private sector. No-year appropriations remain available until expended, while multi-year appropriations are available for the period prescribed by the applicable statute. Appropriations are used, within statutory limits, for programmatic, operating and capital expenditures for essential personal property. Appropriations are recognized as a financing source when expended. Appropriations expended for capitalized property and equipment are recognized as expense when an asset is consumed in operations.

The IAF has an agreement with the IDB to receive funds from the SPTF to finance part of the IAF's grant program. The IDB is an international financial organization established to promote the economic and social development of member countries. The United States' participation in IDB is authorized and governed by the Inter-American Development Bank Act (22 U.S.C. 283). Within IDB, the United States established the SPTF in 1961 and provided appropriations to SPTF through 1964. IDB was designated as the administrator for the SPTF and committed the original SPTF appropriations to loans. Repayments of these loans are recycled by the IDB in accordance with the original agreement and subsequent provision for additional loans, technical cooperation programs, and financing of the Inter-American Foundation program.

Pursuant to a 1973 amendment to the Foreign Assistance Act of 1961, IDB provides funds to finance social development projects. These funds are made available in U.S. dollars upon request by the IAF, subject to denomination availability and exchange controls. In 2002, the SPTF agreement was amended to make available all remaining funds until exhausted.

The IAF recognizes as an imputed financing source the amount of accrued pension and post-retirement benefit expenses for current employees paid on its behalf by the Office of Personnel Management (OPM).

**INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2008 and 2007**

Note 1. Summary of Significant Accounting Policies (continued)

F. Taxes

The IAF, as a Federal entity, is not subject to federal, state or local income taxes, and, accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

G. Fund Balances with Treasury

The U.S. Treasury processes cash receipts and disbursements. Funds with the Department of the Treasury primarily represent appropriated funds and SPTF collections that are available to pay current liabilities and finance authorized purchase commitments and SPTF grants. The IAF does not maintain cash in commercial bank accounts or foreign currency balances. Foreign currency payments are made either by Treasury or the Department of the State and are reported by the IAF in U.S. dollar equivalents. See Note 2 for additional information.

H. Accounts Receivable

Accounts receivable consists of amounts owed to the IAF by other Federal agencies and the public. Amounts due from Federal agencies are considered fully collectible. Accounts receivable from the public include reimbursements from employees. An allowance for uncollectible accounts receivable from the public is established when either (1) based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay, or (2) an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent. See Note 4 for additional information.

I. General Property, Plant, and Equipment, Net

The IAF's property, plant and equipment are recorded at original acquisition cost and are depreciated using the straight-line method over the estimated useful life of the asset. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The IAF's capitalization threshold is \$50,000 for individual purchases and \$500,000 for bulk purchases. The useful life classifications for capitalized assets are as follows:

<u>Description</u>	<u>Useful Life (years)</u>
ADP equipment	3
Office furniture and equipment	10

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2008 and 2007

Note 1. Summary of Significant Accounting Policies (continued)

J. Prepayments

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

K. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by the IAF as a result of transactions or events that have already occurred. No liability can be paid, however, absent an appropriation or SPTF funding. Liabilities for which an appropriation has not been enacted or SPTF funds received are, therefore, classified as not covered by budgetary resources. There is no certainty that the appropriation will be enacted. Additionally, the Government, acting in its sovereign capacity, can abrogate liabilities. Liabilities not covered by budgetary resources on the Balance Sheet are equivalent to amounts reported as components requiring or generating resources on the Reconciliation of Net Cost to Budget.

L. Accounts Payable

Accounts payable consists of amounts owed to other federal agencies and trade accounts payable.

M. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Liabilities associated with other types of vested leave, including compensatory, restored leave, and sick leave in certain circumstances, are accrued at year-end, based on the latest pay rates and unused hours of leave. Nonvested leave is expensed when used. Any liability for sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS) covered employee is transferred to the Office of Personnel Management upon the retirement of that individual. No credit is given for sick leave balances upon the retirement of Federal Employee's Retirement System (FERS) covered employees.

N. Retirement Plans

The IAF's employees participate in the CSRS or the FERS. FERS was established by the enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 elected to join either FERS and Social Security or remain in CSRS.

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2008 and 2007

Note 1. Summary of Significant Accounting Policies (continued)

N. Retirement Plans (continued)

The IAF recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to the IAF for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. The IAF recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and the IAF makes a mandatory 1 percent contribution to this account. In addition, the IAF makes matching contributions, ranging from 1 to 4 percent, for FERS eligible employees who contribute to their TSP accounts. In accordance with Federal employee benefit policies, matching contributions are not made to the TSP accounts established by CSRS employees.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, the IAF remits the employer's share of the required contribution. The IAF's contribution to the employee pension plan was \$494,309 for fiscal year 2008 and \$481,473 for fiscal year 2007. In addition, the IAF costs for health and life insurance were \$414,969 for fiscal year 2008 and \$412,238 for fiscal year 2007.

The IAF does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the OPM.

O. Grant Disbursements and Administrative Expenses

Grant disbursements include payments under contractual obligations. Evidence of performance is determined by review of periodic expenditure reports. All of the IAF expenditures for grants over \$35,000 are independently verified using the IAF's audit guidelines. The IAF's administrative expenses are funded solely by appropriated funds.

P. Use of Estimates

Management has made certain estimates when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2008 and 2007

Note 1. Summary of Significant Accounting Policies (continued)

Q. Imputed Cost/Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. The IAF recognized imputed costs and financing sources in fiscal years 2008 and 2007 to the extent directed by OMB.

R. Non-Entity Assets and Liabilities

The IAF did not hold any Non-Entity assets or liabilities as of September 30, 2008 and 2007.

S. Contingencies

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The IAF recognizes liabilities, in the accompanying balance sheet and statement of net cost, when it is both probable and can be reasonably estimated. The IAF discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to the IAF for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made. There are no contingencies that require disclosure.

T. Expired Accounts and Cancelled Authority

Unless otherwise specified by law, annual authority expires for incurring new obligations at the beginning of the subsequent fiscal year. The account in which the annual authority is placed is called the expired account. For five fiscal years, the expired account is available for expenditure to liquidate valid obligations incurred during the unexpired period. Adjustments are allowed to increase or decrease valid obligations incurred during the unexpired period but not previously reported. At the end of the fifth expired year, the expired account is cancelled.

Note 2. Fund Balance with Treasury

Entity fund balances include amounts that are available to pay liabilities and to finance authorized purchase and grant commitments. Restricted unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for

**INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2008 and 2007**

Note 2. Fund Balance with Treasury (continued)

which the appropriation was available for obligation or for paying claims attributable to the appropriations.

	<u>2008</u>	<u>2007</u>
Fund Balances:		
Appropriated fund	\$ 20,659,799	\$ 18,286,028
Gift fund	-	33,694
Social progress trust fund (SPTF)	16,937,111	16,294,968
Total entity funds	<u>\$ 37,596,910</u>	<u>\$ 34,614,690</u>
Status of Fund Balance with Treasury:		
Unobligated balance includes SPTF		
Available	\$ 131,805	\$ 1,882,079
Unavailable	7,939,562	5,706,769
Obligated balance not yet disbursed	29,525,543	27,025,842
Total	<u>\$ 37,596,910</u>	<u>\$ 34,614,690</u>

Note 3. Prepayments

Prepayments are made to select government agencies and vendors in advance of receiving the goods or service. Prepayment balances as of September 30, 2008 and 2007 were \$14,159 and \$144,574, respectively.

Note 4. Accounts Receivable

Accounts receivable balances as of September 30, 2008 and 2007 were \$178 and \$895, respectively. Accounts receivable from the public are shown net of allowances for uncollectible amounts.

Note 5. Property, Plant and Equipment

The balance of Property, Plant, and Equipment is as follows:

Schedule of Property, Plant and Equipment as of September 30, 2008

<u>Description</u>	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
ADP equipment	\$ 27,000	\$ 27,000	\$ -
Office furniture	37,987	37,987	-
Total	<u>\$ 64,987</u>	<u>\$ 64,987</u>	<u>\$ -</u>

**INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2008 and 2007**

Note 5. Property, Plant and Equipment (continued)

Schedule of Property, Plant and Equipment as of September 30, 2007

<u>Description</u>	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
ADP equipment	\$ 27,000	\$ 27,000	\$ -
Office furniture	37,987	37,804	183
Total	<u>\$ 64,987</u>	<u>\$ 64,804</u>	<u>\$ 183</u>

Note 6. Liabilities

The accrued liabilities for the IAF are comprised of program expense accruals, payroll accruals, and unfunded annual leave earned by employees. Program expense accruals represent expenses that were incurred prior to year-end but were not paid. Similarly, payroll accruals represent payroll expenses that were incurred prior to year-end but were not paid.

Schedule of liabilities

	<u>2008</u>	<u>2007</u>
Liabilities covered by budgetary resources		
Intragovernmental		
Accounts Payable	\$ 224,340	\$ 165,594
Payroll taxes payable	42,461	35,037
Total intragovernmental	<u>266,801</u>	<u>200,631</u>
Program expenses		
Rent	-	14,207
Staff travel, training, printing, equipment maintenance, supplies	52,279	10,967
Postage and freight	330	-
Maintenance of equipment	16,185	12,441
Communications and mail services	5,017	3,702
Supplies & non-capitalized equipment	329	6,706
Local advisory service contracts for grantees	392,862	377,347
Grant audits	165,460	145,624
Misc. services, program	8,672	6,623
Misc. services, program support	102,814	217,899
Total program expenses	<u>743,948</u>	<u>795,516</u>
Payroll accrual	155,620	303,244
Payroll taxes payable	-	3,000
Total liabilities covered by budgetary resources	<u>1,166,369</u>	<u>1,302,391</u>
Liabilities not covered by budgetary resources		
Unfunded leave	323,682	312,836
Total liabilities	<u>\$ 1,490,051</u>	<u>\$ 1,615,227</u>

**INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2008 and 2007**

Note 7. Commitments and Contingencies

In the course of its grant-making activities, the IAF has unliquidated grant obligations which, in the absence of violations or cancellations of the grant agreements, will require disbursements. Unliquidated grant obligations at September 30, 2008 and 2007 total approximately \$25,966,032 and \$22,939,082, respectively. As of September 30, 2008 and 2007, there were no obligations due to canceled appropriations for which there is a contractual commitment for payment.

Note 8. Undelivered Orders at the End of the Period

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. For the periods ended September 30, 2008 and 2007, undelivered orders amounted to \$28,359,173 and \$25,723,450, respectively.

Note 9. Program Costs

Costs by major budget object classification as of September 30, 2008 and 2007 are as follows:

<u>Budget object classifications</u>	<u>2008</u>	<u>2007</u>
Personnel compensation	\$ 3,874,565	\$ 3,691,203
Personnel benefits other than pension, health, and life insurance	383,374	387,098
Pension – CSRS	138,095	135,550
Pension – FERS	356,214	345,923
Health insurance	408,432	406,028
Life insurance	6,538	6,210
Travel and transportation of persons	563,478	450,053
Transportation of things	9,766	8,243
Rents, communication, utilities and misc. charges	709,283	699,340
Printing and reproduction	251,131	230,976
Other services	4,645,795	4,400,283
Supplies and materials	149,054	183,712
Equipment	16,607	20,905
Grants, subsidies, and contributions	13,464,931	16,255,014
Total	<u>\$ 24,977,263</u>	<u>\$ 27,220,538</u>

Note 10. Liabilities Not Covered By Budgetary Resources

The liabilities on the IAF's Balance Sheet as of September 30, 2008 and 2007, include liabilities not covered by budgetary resources, which are liabilities for which congressional action is

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2008 and 2007

Note 10. Liabilities Not Covered By Budgetary Resources (continued)

needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. Unfunded FECA liability is an intragovernmental liability not covered by budgetary resources. Other liabilities not covered by budgetary resources consist of unfunded leave. Unfunded leave balances are \$323,682 and \$312,836 as of September 30, 2008 and 2007, respectively.

Note 11. Imputed Financing Sources

The IAF recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the OPM. For the fiscal years ended September 30, 2008 and 2007, imputed financing was \$318,191 and \$323,077, respectively.

Note 12. Financing Sources - SPTF

The Reconciliation of Net Cost of Operations to Budget Note reconciles the financial Net Cost of Operations with the Statement of Budgetary Resources. The IAF reports SPTF funds obtained from the IDB as offsetting collections earned. The IAF had no exchange revenue in fiscal year 2008 or 2007. For fiscal year 2008 and 2007, the IAF received \$6,803,003 and \$3,564,919, respectively from the IDB, which was reported on its SF-133 as funds received from SPTF collections.

	<u>2008</u>	<u>2007</u>
SPTF cumulative results		
SPTF beginning balance	\$ 16,294,968	\$ 19,692,527
SPTF funds received	6,803,003	3,564,919
Less: SPTF funds expended	6,160,860	6,962,478
SPTF fund carry forward	<u>\$ 16,937,111</u>	<u>\$ 16,294,968</u>
Donations cumulative results		
Donations beginning balance	\$ 33,694	\$ 75,000
Donations received	2,250	50
Less: Donations expended	35,944	41,356
Donations carry forward	<u>\$ 0</u>	<u>\$ 33,694</u>
Total SPTF and Donations	\$ 16,937,111	\$ 16,328,662
Less: cumulative results of operations all other funds	<u>323,503</u>	<u>311,758</u>
Total cumulative results of operations for SPTF, Gift and Appropriated funds	<u>\$ 16,613,608</u>	<u>\$ 16,016,904</u>

**INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2008 and 2007**

Note 13. Budgetary Resource Comparisons to the Budget of the United States Government

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the United States Government (President's Budget). However, the President's Budget that will include FY08 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2009 and can be found at the OMB Web site. <http://www.whitehouse.gov/omb> The 2009 Budget of the United States Government, with the actual column completed for 2007 has been reconciled to the Statement of Budgetary Resources, and there were no material differences.

Note 14. Operating Lease

The IAF occupies office space under a lease agreement, which is accounted for as an operating lease. The IAF entered into a lease agreement that will expire on April 30, 2012. Lease payments are increased annually based on the IAF's proportionate share of the building's operating expenses and real estate taxes. The new agreement allows the IAF an abatement credit in lieu of a build-out allowance that will be deducted from the monthly rent for the first 26 months of the lease. Total net rental expense for fiscal years 2008 and 2007 were \$664,308 and \$646,338, respectively. Below is a schedule of future payments for the term of the lease:

<u>Schedule of future operating lease payments</u>	
<u>Fiscal Year</u>	<u>Amount</u>
2009	\$ 704,413
2010	719,898
2011	735,770
2012	440,095
Total future payments	<u>\$ 2,600,176</u>

NOTE 15. EARMARKED FUNDS

Schedule of Earmarked Funds as of September 30, 2008 and 2007

Balance Sheets as of September 30	<u>2008</u>	<u>2007</u>
Assets:		
Fund balance with Treasury	\$ 16,937,111	\$ 16,328,662
Total Assets	<u>\$ 16,937,111</u>	<u>\$ 16,328,662</u>

**INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2008 and 2007**

Note 15. Earmarked Funds (continued)

	<u>2008</u>	<u>2007</u>
Liabilities: None		
Net Position:		
Cumulative results of operations - Earmarked funds	\$ 16,937,111	\$ 16,328,662
Total Net Position	<u>16,937,111</u>	<u>16,328,662</u>
Total Liabilities and Net Position	<u>\$ 16,937,111</u>	<u>\$ 16,328,662</u>

**Statements of Net Cost
For the Period Ended September 30**

	<u>2008</u>	<u>2007</u>
Program Costs:		
Gross Costs	\$ 6,196,804	\$ 7,003,834
Less: Total Non Exchange Revenue	<u>6,805,253</u>	<u>3,564,968</u>
Net Cost of Operations	<u>\$ (608,449)</u>	<u>\$ 3,438,866</u>

**Statements of Changes in Net Position
For the Period Ended September 30**

	<u>2008</u>	<u>2007</u>
Net Position Beginning of Period	\$ 16,328,662	\$ 19,767,528
Net Cost of Operations	<u>(608,449)</u>	<u>3,438,866</u>
Net Position End of Period	<u>\$ 16,937,111</u>	<u>\$ 16,328,662</u>

Note 16. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

	<u>2008</u>	<u>2007</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	\$ 29,150,961	\$ 26,408,290
Less: Spending Authority From Offsetting Collections and Recoveries	<u>8,803,580</u>	<u>4,574,802</u>
Obligations Net of Offsetting Collections and Recoveries	<u>20,347,381</u>	<u>21,833,488</u>
Net Obligations	20,347,381	21,833,488
Other Resources		
Donations and Forfeitures of Property	2,250	50
Imputed Financing From Costs Absorbed By Others	<u>318,191</u>	<u>323,077</u>
Net Other Resources Used to Finance Activities	<u>320,441</u>	<u>323,127</u>
Total Resources Used to Finance Activities	<u>\$ 20,667,822</u>	<u>\$ 22,156,615</u>
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change In Budgetary Resources Obligated For Goods, Services and Benefits Ordered But Not Yet Provided	\$ (2,505,308)	\$ 1,493,549

**INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2008 and 2007**

**Note 16. RECONCILIATION OF NET COST OF OPERATIONS
TO BUDGET (continued)**

	<u>2008</u>	<u>2007</u>
Resources That Fund Expenses Recognized In Prior Periods	(717)	-
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations		
Other	<u>6,803,003</u>	<u>3,564,919</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>\$ 4,298,412</u>	<u>\$ 5,058,468</u>
Total Resources Used to Finance the Net Cost of Operations	<u>\$ 24,966,234</u>	<u>\$ 27,215,083</u>
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Increase In Annual Leave Liability	<u>\$ 10,846</u>	<u>\$ 5,377</u>
Total Components of Net Cost of Operations That Will Require or Generate Resources In Future Periods	<u>10,846</u>	<u>5,377</u>
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	183	546
Other	<u>-</u>	<u>(468)</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	<u>183</u>	<u>78</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources In The Current Period	<u>11,029</u>	<u>5,455</u>
Net Cost of Operations	<u>\$ 24,977,263</u>	<u>\$ 27,220,538</u>

Independent Auditors' Report on Internal Control over Financial Reporting

Office of the Inspector General
U.S. Agency for International Development
Washington, D.C.

We have audited the financial statements (balance sheets and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements") of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of, and for the year ended September 30, 2008 and 2007, and have issued our report thereon dated November 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the IAF's internal control over financial reporting by obtaining an understanding of the IAF's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audits was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund's ability to initiate, authorize,

record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Fund's financial statements that is more than inconsequential will not be prevented or detected by the Fund's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Fund's internal control.

Because of inherent limitations in internal controls, misstatements, losses, or non compliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information and the use of management of the Inter-American Foundation (IAF), the Office of the Inspector General (OIG) of the U.S. Agency for International Development, the Office of Management and Budget (OMB), and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

/s/

GKA, PC

November 1, 2008

**Independent Auditors' Report on
Compliance with Laws and Regulations**

Office of the Inspector General
U.S. Agency for International Development
Washington, D.C.

We have audited the financial statements (balance sheets and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as “financial statements”) of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of, and for the years ended September 30, 2008 and 2007, and have issued our report thereon dated November 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

The management of IAF is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of IAF’s compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the IAF.

The results of our tests of compliance with laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04.

Under FFMIA, we are required to report on whether the IAF’s financial management systems substantially comply with the Federal financial management systems requirements (FFMSR), applicable Federal

accounting standards, and the United States Standard General Ledger at the transaction level in accordance with FFMIA section 803(a) requirements. The Administrative Resource Center, Bureau of Public Debt, performs the accounting and reporting functions for the IAF. We are not the auditors of the Bureau of Public Debt and did not perform tests of compliance with the FFMSR using the implementation guidance included in Appendix D of OMB Bulletin No. 07-04.

Those tests were performed by other auditors whose report has been furnished to us. Our report, insofar as it relates to FFMSR compliance, is based solely on the report of the other auditors.

The report of the other auditors on the substantial compliance of the IAF with the requirements of FFMSR disclosed no instances of substantial non compliance with the FFMSR. Our audit tests disclosed no instances in which IAF did not substantially comply with Federal accounting standards and the U.S. Standard General Ledger requirements.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of management of the Inter-American Foundation (IAF), the Office of the Inspector General (OIG) of the U.S. Agency for International Development, the Office of Management and Budget (OMB), and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

/s/

GKA, PC

November 1, 2008